



U.S. GENERAL SERVICES ADMINISTRATION  
Office of Inspector General

NOV 13 2009

MEMORANDUM FOR PAUL F. PROUTY  
ACTING ADMINISTRATOR (A)

KATHLEEN M. TURCO  
CHIEF FINANCIAL OFFICER (B)

FROM: BRIAN D. MILLER *B. Miller*  
INSPECTOR GENERAL (J)

SUBJECT: Audit of the General Services Administration's  
Fiscal Year 2009 Financial Statements

The Office of the Inspector General (OIG) contracted with the independent public accounting (IPA) firm of KPMG LLP (KPMG) to audit the financial statements of the General Services Administration (GSA) as of September 30, 2009 and for the year then ended. The purpose of this audit was to provide a report on internal controls over financial reporting including safeguarding assets and compliance with laws and regulations. In addition, if necessary, to report instances in which GSA's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).

The contract required that the audit be completed in accordance with the following guidance: U.S. generally accepted government auditing standards; Office of Management and Budget audit guidance; and the Government Accountability Office / Council of the Inspectors General on Integrity and Efficiency *Financial Audit Manual*. KPMG is responsible for the attached auditor's report dated November 12, 2009 and the conclusions expressed therein. The OIG does not express opinions on GSA's financial statements, internal controls, whether GSA's financial management systems substantially complied with FFMIA, or conclusions on compliance with laws and regulations.

In their audit of GSA, KPMG found:

- The financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.
- There were no material weaknesses in internal controls over financial reporting including safeguarding assets and compliance with laws and regulations.
- No instances identified in which the entity's financial management systems did not substantially comply with the requirements of FFMIA.

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KPMG also described the following significant matters:

- Weaknesses in the effectiveness of controls over GSA's accounting and business processes for budgetary transactions.
- Weaknesses relating to GSA's controls over the accounting and disclosures of rental income from non-cancellable occupancy agreements.
- Continued reliance on the worksheet adjustment process to produce financial statements and to ensure that account balances are not significantly misstated at fiscal year-end.
- Weaknesses identified in the information technology control environment.

The Office of Inspector General appreciates the courtesies and cooperation extended to KPMG and to our audit staff during the audit and review. If you, or your staff, have any questions, please contact Theodore R. Stehney, Assistant Inspector General for Auditing at (202) 501-0374.

Attachments





KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report

Inspector General  
United States General Services Administration

We have audited the consolidated totals in the accompanying consolidating balance sheet of the United States General Services Administration (GSA) as of September 30, 2009, and the related consolidated totals on the accompanying consolidating statements of net cost and changes in net position, and the combined totals in the combining statement of budgetary resources (hereinafter referred to as "consolidated financial statements") for the year then ended. We have also audited the individual balance sheets of the Federal Buildings Fund (FBF) and the Acquisition Services Fund (ASF) (hereinafter referred to as the "Funds") as of September 30, 2009 and the related individual statements of net cost and changes in net position, and combined statements of budgetary resources (hereinafter referred to as the Funds' "individual financial statements") for the year then ended.

The objective of our audit was to express opinions on the fair presentation of these consolidated financial statements and the Funds' individual financial statements. In connection with our fiscal year 2009 audit, we also considered GSA's internal control over financial reporting and tested GSA's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these consolidated financial statements and the Funds' individual financial statements. The accompanying consolidated financial statements and Funds' individual financial statements as of September 30, 2008, were audited by other auditors whose report thereon, dated November 14, 2008, expressed unqualified opinions on those consolidated and the Funds' individual financial statements.

### Summary

As stated in the Opinions on the Financial Statements section of this report, we concluded that GSA's consolidated financial statements and the Funds' individual financial statements as of and for the year ended September 30, 2009, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. The accompanying consolidated financial statements and the Funds' individual financial statements as of September 30, 2008, were audited by other auditors whose report thereon, dated November 14, 2008, expressed unqualified opinions on those consolidated and the Funds' individual financial statements.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies that we consider to be significant deficiencies, as follows:

- A. Controls over budgetary accounts and transactions
- B. Controls over accounting and reporting of non-cancellable occupancy agreements
- C. Controls over financial reporting
- D. General and application controls over financial management systems







We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control over Financial Reporting section of this report.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The following sections discuss our opinions on GSA's consolidated financial statements and the Funds' individual financial statements; our consideration of GSA's internal control over financial reporting; our tests of GSA's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

### **Opinions on the Financial Statements**

We have audited the consolidated totals in the accompanying consolidating balance sheet of the United States General Services Administration as of September 30, 2009, and the related consolidated totals on the accompanying consolidating statements of net cost and changes in net position, and combined totals in the combining statement of budgetary resources for the year then ended. We have also audited the individual balance sheets of the Funds as of September 30, 2009 and the related individual statements of net cost and changes in net position, and combined statements of budgetary resources for the year then ended. The accompanying consolidated financial statements and Funds' individual financial statements as of September 30, 2008, were audited by other auditors whose report thereon, dated November 14, 2008, expressed unqualified opinions on those consolidated and Funds' individual financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of GSA and the financial position of each of the Funds as of September 30, 2009 and the consolidated and individual Funds' net costs, changes in net position, and budgetary resources for the year then ended, in conformity with U.S. generally accepted accounting principles.

The information in the Management's Discussion and Analysis section and the Required Supplementary Information in the Financial section of *GSA's Fiscal Year 2009 Agency Financial Report* is not a required part of the consolidated and Funds' individual financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

The information in the Other Accompanying Information section of *GSA's Fiscal Year 2009 Agency Financial Report* are presented for purposes of additional analysis and are not required as part of the consolidated and Funds' individual financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.





## Internal Control Over Financial Reporting

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

In our fiscal year 2009 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and that are described in Exhibit I. Exhibit II presents the status of the prior year material weakness and significant deficiency.

We noted certain additional matters that we have reported to management of GSA in a separate letter.

## Compliance and Other Matters

The results of our tests of compliance described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

The results of our tests of FFMIA disclosed no instances in which GSA's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

## Responsibilities

**Management's Responsibilities.** Management is responsible for the consolidated financial statements of GSA and the Funds' individual financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to GSA.

**Auditors' Responsibilities.** Our responsibility is to express opinions on the fiscal year 2009 consolidated financial statements of GSA and the Funds' individual financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin No. 07-04, as amended, require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated and the Funds' individual financial statements are free of material misstatement.





An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GSA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated and the Funds' individual financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated and the Funds' individual financial statement presentation.

We believe that our audit provides a reasonable basis for our opinions.

In planning and performing our fiscal year 2009 audit, we considered GSA's internal control over financial reporting by obtaining an understanding of GSA's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinions on the consolidated financial statements and the Funds' individual financial statements. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of GSA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GSA's internal control over financial reporting.

As part of obtaining reasonable assurance about whether GSA's fiscal year 2009 consolidated financial statements and the Funds' individual financial statements are free of material misstatement, we performed tests of GSA's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts and the Funds' individual financial statements amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended, including the provisions referred to in Section 803(a) of FFMA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to GSA. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

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GSA's responses to the findings identified in our audit are presented in Exhibit I. We did not audit GSA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the GSA's management, GSA's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 12, 2009



**A. Controls over budgetary accounts and transactions**

Budgetary accounts are a category of the general ledger accounts where transactions related to receipts, obligations, and disbursements of budgetary authority – the authority provided by law to incur financial obligations that will result in outlays, are recorded.

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, sets forth requirements to develop control processes necessary to ensure that reliable and timely information is obtained, maintained, reported, and used for decision making. Additionally, OMB Circular No. A-127, *Federal Financial Systems*, provides a framework for Federal agencies to develop financial management systems that should generate reliable, timely, and consistent information necessary for meeting management's responsibilities, including the preparation of financial statements.

GSA policies require each of GSA's Services – Public Buildings Service (PBS) and Federal Acquisition Service (FAS) – to address the need to strengthen internal controls over budgetary reporting and to mitigate known weaknesses in the budgetary transaction level controls. Although GSA has improved compliance with its policies, GSA needs to continue improving the effectiveness of controls over its accounting and business processes to ensure that budgetary transactions are properly recorded, processed, and summarized. Specifically, we noted the following internal control weaknesses in GSA's financial management systems internal controls and financial reporting processes, many of which were reported in the fiscal year 2008 internal control report. In addition, GSA management's assessment of internal controls, performed as part of their OMB Circular No. A-123, Appendix A, reviews indicated similar issues as noted below.

**1. Undelivered orders**

Undelivered orders represent GSA's obligations that require the agency to make payments to the public or from one Government account to another. Under OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget* requirements, obligations incurred must conform to applicable provisions of law, and agencies must be able to support the amounts reported by appropriate documentary evidence as defined by 31 U.S.C. 1501.

Of the 337 PBS obligations selected for test work, we noted 12 instances where contracts and modifications to contracts (including de-obligations) were not properly monitored, recorded accurately or timely, or entered into the financial management system. Additionally, we noted GSA did not provide proper documentation to support seven obligations recorded in the financial management system and recorded two obligations in the financial management system before the contracts were signed.

GSA overstated obligations between intra-GSA funds in four instances due to a system limitation for recording invoices received from other GSA components. Further, GSA did not consistently include the delivery date or period of performance for 26 of the 337 contracts reviewed, increasing the risk that management will not be able to determine the validity of its undelivered orders.

GSA did not effectively review undelivered orders because the ASF should have de-obligated approximately \$29 million of invalid undelivered orders for one of ASF's programs. In addition, GSA entered into eight contracts for worldwide telecommunications and network services committing GSA to meet certain Minimum Revenue Guarantees (MRG) totaling approximately \$535 million as of September 30, 2009. GSA needs to improve controls over the accounting and disclosures of MRG obligations to ensure that undelivered orders from these contracts are accurately recorded and



**Independent Auditors' Report**  
**Exhibit I – FY2009 Significant Deficiencies**

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disclosed. This deficiency resulted in GSA understating undelivered orders by approximately \$15 million as of September 30, 2009, and initially omitting the disclosure of the MRG commitments in the notes to the FY 2009 financial statements. Ultimately, GSA adjusted its undelivered orders balance and disclosed its commitments related to MRG contracts in the notes to the consolidated financial statements.

As reported in the previous year, the lack of integrated financial and acquisition systems combined with the ineffective communication between the program office and the Budget/Financial Management Office within the regions continues to be the contributing factor for obligations not being accurately recorded in the financial management system. As a result, PBS Central Office management continued to rely on costly compensating processes and labor-intensive efforts to prepare reliable financial statements throughout the year and at fiscal year-end.

**2. Unfilled customer orders**

Unfilled customer orders represent the amount of goods and services to be furnished by GSA to other Federal government agencies. Unfilled customer orders provide budgetary resources to enter into new obligations and to liquidate them. GSA needs to improve the effectiveness of its controls over unfilled customer orders. During our testing of 257 unfilled customer orders for PBS, we noted 7 instances where the goods and services related to these orders had been completed and the remaining unfilled customer orders were not cancelled in a timely manner. As a result of our observations, GSA adjusted its unfilled customer orders balance.

**3. Recovery of prior years' obligations**

Recovery of prior years' obligations represents cancellations or downward adjustments of obligations incurred in prior fiscal years. As reported in the previous year, GSA's financial management system lacks the appropriate posting logic to properly account for recoveries of prior years' obligations in certain situations, requiring extensive manual reviews and adjustments for detecting and correcting errors rather than preventing them. Additionally, GSA incorrectly recorded recovery of prior years' obligations for undelivered orders that should have been de-obligated by one of ASF's programs. This deficiency resulted in GSA overstating its recoveries of prior years' obligations for one of its programs by approximately \$29 million for the fiscal year ended September 30, 2009.

**Recommendations**

We recommend that GSA management continue to implement the following recommendations to improve controls over the accounting for budgetary transactions:

**a. Undelivered Orders**

1. Continue efforts in evaluating the design and implementation of system interfaces between the contracting system and the financial management system of record;
2. Until such interfaces are in place, continue monthly reconciliation efforts between the contracting system and the financial management system and ensure sufficient resources are available to perform the reconciliations in a timely and routine manner;
3. Perform procedures to ensure all obligations are captured and accurately recorded in the financial management system;



**Independent Auditors' Report**  
**Exhibit I – FY2009 Significant Deficiencies**

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4. Assess the root causes of ineffective internal controls at the process level as part of the overall control deficiency assessment to help design an effective internal control environment that is suitable to GSA business processes;
5. Continue to improve the efficiency of transaction-level, process-driven controls to avoid overreliance on high-level mitigating controls over budgetary accounts and transactions;
6. Provide additional training to reinforce existing policies and procedures, which require all obligations be entered into financial management systems timely and prior to the receipt of any goods and/or services by GSA;
7. Improve communication with GSA's procurement operations and the regions to better facilitate response times by regions for award acceptance and receipt of goods and services;
8. Improve communications between GSA's Services to identify all intra-GSA billings and perform periodic reviews to ensure that cost transfers needed to capture billings at the proper line of accounting are processed accurately and in a timely manner;
9. Institute policies and procedures to ensure that a contract delivery date or period of performance is stated on all obligating documents before obligations are authorized, when appropriate; and
10. Strengthen the effectiveness of policies and procedures to ensure that commitments and contingencies regarding MRG obligations are properly accounted for and disclosed in the financial statements.

**b. Unfilled Customer Orders**

1. Continue to perform periodic reviews of outstanding unfilled customer orders to ensure that balances reported in the financial statements are valid and accurate; and
2. Educate the regions on the importance of having valid unfilled customer orders in the financial statements and the need to properly account for unfilled customer orders by closing all orders in a timely manner.

**c. Recovery of prior years obligations**

1. Until the posting logic to capture recoveries from prior years' obligations is adequately addressed in the financial management system, GSA needs to continue to rely on its periodic reviews of the recovery of prior year obligation balances to ensure that balances reported in the financial statements are valid and accurate.

**Management Response**

While the GSA budgetary issues are appreciable, we are encouraged by the progress made in addressing these issues in fiscal year 2009 as supported by the removal of last year's Material Weakness and our 52 percent reduction in manual adjustments (please see our response below to the significant deficiency *Controls over financial reporting* for additional information). Despite these improvements, we will continue to consider how best to strengthen the effectiveness of controls currently in place as well as determine where additional or revised controls may be necessary. In addition, we will review previous corrective action plans, review current year recommendations, and draft revised corrective action plans to further improve our reporting, system, and operational controls.



**Independent Auditors' Report**  
**Exhibit I – FY2009 Significant Deficiencies**

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The Office of the Chief Financial Officer is working in partnership with the business and Office of the Chief Information Officer staffs across GSA to ensure that we continue to implement an integrated financial management system for use by program offices to promote consistency and reliability of budgetary and financial information.

**B. Controls over accounting and reporting of non-cancellable occupancy agreements**

Substantially all leased space maintained by GSA is sublet to other Federal agencies at rental rates to recover GSA's costs of that space. GSA reported rental income under subleasing agreements of approximately \$5.1 billion for fiscal year 2009. Within its occupancy agreement portfolio, GSA maintains approximately 1,500 non-cancellable occupancy agreements with customer Federal agencies.

GSA needs to improve controls over the accounting and disclosure of its non-cancellable occupancy agreements to ensure rental revenue for these types of arrangements are properly recorded, summarized, and disclosed in the financial statements, in accordance with applicable accounting standards. Specifically, GSA had not recognized rental revenues on a straight-line basis for certain non-cancellable occupancy agreements, where step rents or free rents were included in the lease agreements, as required by U.S. generally accepted accounting principles (GAAP). These deficiencies resulted in GSA understating its assets by approximately \$27 million as of September 30, 2009. In addition, GSA had initially omitted disclosures regarding the future projected receipts as required by OMB Circular No. A-136, *Financial Reporting Requirements* and GAAP for a total amount of approximately \$3.6 billion. As a result of our observations, GSA analyzed, adjusted, and disclosed its future rental revenues from non-cancellable occupancy agreements in the notes to the consolidated financial statements.

**Recommendations**

We recommend GSA management implement the following recommendations to improve controls over the accounting and reporting of rental income from non-cancellable occupancy agreements:

1. Develop policies and procedures to evaluate the accounting and disclosure requirements of all non-cancellable occupancy agreements at the inception of each agreement; and
2. Establish policies and procedures requiring a thorough review of all the business policies periodically to determine the changes in the business operations, which may require different accounting treatment. This would ensure that the financial statements and the related disclosures are prepared in conformity with GAAP.

**Management Response**

Management acknowledges that applicable accounting standards require treatment such that the economic substance of these agreements prevails over the legal form. Therefore, PBS agrees with the auditors' findings and recommendations regarding the need to improve the internal controls over the accounting and disclosure of non-cancellable occupancy agreements to ensure rental revenue for the agreements is properly recorded, summarized, and disclosed in accordance with applicable accounting standards. PBS has placed additional financial management resources over the leasing area in fiscal year 2010 to ensure appropriate accounting entries are made and accurately presented, including the development of a footnote disclosure for inclusion on our financial statements.



**Independent Auditors' Report**  
**Exhibit I – FY2009 Significant Deficiencies**

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**C. Controls over financial reporting**

Throughout fiscal year 2009, the GSA Office of the Chief Financial Officer (OCFO) utilized the “Worksheet Adjustment” process within the financial reporting process to adjust its financial statements to ensure they were prepared in accordance with GAAP. Although GSA has made improvements to its business processes in the second half of the fiscal year 2009 to reduce the volume and dollar amount of top-sided adjusting entries, GSA continued to rely on the worksheet adjustment process to produce its financial statements and to ensure that account balances were not significantly misstated at fiscal year-end.

As of September 30, 2009, GSA recorded approximately 264 top-side adjustments, each representing multiple accounting transactions, with an aggregate value of approximately \$2.6 billion. These top-side adjustments can be classified into the following key areas:

- Adjustments needed to establish budgetary balances for internal and external reporting purposes;
- Adjustments required for bringing into balance budgetary accounts based on proprietary activity;
- Adjustments from reconciliation procedures of subsidiary systems to the general ledger performed after the books are closed and to record data or transactions that were not processed in time for month-end closing;
- Adjustments needed to capture period-end accruals of income and expenses, reclassifications for presentation purposes, and elimination entries; and
- Adjustments needed to account for the reversing effect of transactions recorded in the general ledger in the current period but were reported as top-sided adjustments in the previous period.

OMB Circular No. A-127, *Federal Financial Systems*, Section 7(c), *Application of the U.S. Government Standard General Ledger at the Transaction Level* states that financial events shall be recorded by agencies in the financial management system applying the requirements of the U.S. Government Standard General Ledger (SGL) at the transaction level. Application of the SGL at the transaction level means that the financial management systems will process transactions following the definitions and defined uses of the general ledger accounts as described in the SGL.

The large volume and dollar values of worksheet adjustments increase the risk of errors and potential misreporting of financial information as the adjustments take place outside of the financial management system and the associated control environment. The worksheet adjustment spreadsheets are prepared through a manual-intensive process by various teams within GSA and it has a pervasive effect over control activities and processes throughout the organization.

**Recommendations**

We recommend that GSA management continue to implement the following recommendations to reduce the volume and amount of top-side worksheet adjustments needed to produce its financial statements and to ensure that account balances are not significantly misstated:

1. Implement a process to reduce the number of worksheet adjustments and ensure these adjustments are recorded in the financial systems at the transaction level to minimize the number of top-side adjustments at year-end;
2. Investigate the root causes of each type of worksheet adjustment used in the financial reporting process;



**Independent Auditors' Report**  
**Exhibit I – FY2009 Significant Deficiencies**

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3. Utilize the OCFO to serve as the primary coordinator of the involvement of Regional and Program areas, whose involvement and full support is vital for an effective internal control structure;
4. Implement an integrated financial management system for use by program offices to promote consistency and reliability of financial information; and
5. Fully utilize the functionalities of the financial management system of record to perform complete budgetary transaction processing and financial reporting in compliance with Federal financial reporting requirements.

**Management Response**

The fiscal year 2009 4th quarter adjustments of \$2.6 billion represent a 52 percent reduction from the fiscal year 2008 4th quarter adjustments of \$5.5 billion. In addition, over 50 percent of the fiscal year 2009 adjustments (\$1.4 billion) were for normal reporting purposes such as intra-fund eliminations, reclassifications within standard general ledger accounts, accruals, and internal reporting changes with no financial statement impact. We would also like to note that these adjustments are the result of GSA's internal control structure and represent instances where GSA internal controls detected and prevented misstatements in our financial reports. Furthermore, we acknowledge that less worksheet adjustments reflect a higher degree of financial system integrity. As such, we will continue to pursue reducing our dependence on worksheet adjustments for accurate financial information.

**D. General and application controls over financial management systems**

GSA did not have adequate information technology controls to protect its financial management systems as required by OMB Circular No. A-130, *Management of Federal Information Resources*. These conditions could affect GSA's ability to prevent and detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information resources.

During fiscal year 2009, we noted improvements in GSA applications and general control. GSA's Office of the Chief Information Officer (OCIO) put in place a corrective action plan to address the pervasive weaknesses identified in prior years' audit findings from an agency-wide root-cause approach. However, GSA needs to continue improving the security and general controls over its financial information systems, as discussed below:

**1. Access controls and segregation of responsibilities**

Access controls protect computer resources from unauthorized modifications, disclosures, and loss. However, of the 12 systems selected for test work, GSA did not fully establish controls to prevent and detect unauthorized access for 1 system; and did not consistently ensure accounts for separate users are removed in a timely manner and inactive accounts were disabled for 3 systems. In addition, GSA did not implement configuration settings to its most restrictive settings to protect systems and data for eight systems. Furthermore, GSA does not have a process in place to develop and maintain a comprehensive inventory of systems; did not maintain a unified and updated listing of all of the roles for the general ledger and the specific rights and privileges assigned to a user. Finally, GSA did not fully establish monitoring controls over application and system activity logs and violation reports of user actions for six systems.



**Independent Auditors' Report**  
**Exhibit I – FY2009 Significant Deficiencies**

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Lack of controls to prevent the assignment of access to incompatible functions within and between systems exposes GSA to the risk that certain users may be assigned the ability to perform multiple critical system transactions. GSA did not periodically review segregation of responsibilities to ensure conflicting access rights are not granted for three systems. In addition, GSA did not consistently ensure that developers were restricted from accessing the production environment for one system. Furthermore, GSA did not consistently ensure users' access was restricted from performing incompatible functions for one system.

**2. System change management**

System change management protects computer resources from unauthorized modifications, disclosures, or loss. GSA did not develop and implement a process for ensuring version control of software changes for one system. In addition, GSA did not consistently ensure that change documentation of authorization for changes, testing of changes and approval for change implementation was documented for three of the 12 systems selected for test work.

**Recommendations**

We recommend that the GSA OCIO and OCFO continue improving controls over its financial information systems to ensure adequate security and protection of the information systems, as follows:

1. Develop and implement a process to review and document the review of audit logs related to financial system access and processing;
2. Ensure policies to approve and remove access are consistently adhered to across information systems;
3. Maintain a unified updated listing of all of the roles for the general ledger and the specific rights and privileges assigned to a user;
4. Improve upon existing procedures to define events to be monitored over application and system activity logs and violation reports of user actions;
5. Ensure policies to recertify users are consistently adhered to across information systems; and
6. Ensure changes for systems are documented so that evidence of authorization is maintained for changes, testing of changes and approval for change implementation.

**Management Response**

During fiscal year 2009, GSA made substantial progress in addressing the IT significant deficiency noted during last year's audit. Specifically, we developed and documented a standard set of access control requirements for key financial management systems, identified key role conflicts for three financial systems, have begun to correct these conflicts, and developed standard operating procedures to improve system logging and monitoring capabilities. Notwithstanding this progress, we acknowledge that more work remains. Accordingly, we have initiated a Lean Six Sigma (LSS) effort to revisit existing segregation of duty policies and resolve existing access conflicts, publish current user role definitions on our website for clarity, train functional coordinators and information system security officials to review and monitor existing access levels as well as access requests for conflicts, and develop standard operating procedures for monitoring user-related system activities.



**Independent Auditors' Report**  
**Exhibit I – FY2009 Significant Deficiencies**

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In addition, this LSS group will clarify current system role assignments and revise current process flows where needed to create a more effective procurement-related payment process, improve user role assignments, expedite transactional processing, and shorten system access approval time.



**Independent Auditors' Report**  
**Exhibit II – Status of Prior Year Findings**

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Fiscal Year 2008 Conditions	Status of Fiscal Year 2008 Conditions
<b>Material Weakness</b>	
Financial Management Systems, Internal Controls, and Financial Reporting Need Improvement	These conditions have been partially remediated and are reported in fiscal year 2009. See findings A and C.
<b>Significant Deficiency</b>	
Strengthen Segregation of Duties, Account Management, and Activity Monitoring Controls	This condition has been partially remediated and it is reported in fiscal year 2009. See finding D.
<b>Non-Compliance</b>	
Non-compliance with FFMIA	This condition has been corrected.